

Statement of Birny Birnbaum
Insurance Credit Scoring
January 17, 2008
Wisconsin Senate Committee on Health, Human Services,
Insurance and Job Creation

1. Qualifications – Tab 1
2. Public Policy Goals of Insurance – Individual and Community Economic Development
 - a. Essential Financial Security Tool – Available and Affordable to All Income Levels
 - b. Loss Prevention and Loss Mitigation
3. Insurance Scoring Should Be Prohibited for Many Reasons (Tab 2)
 - a. Is inherently unfair and penalizes consumers who are the victims of economic or medical or natural catastrophes;
 - b. Undermines core functions of insurance system by worsening insurance availability and affordability and undermining the critical role of insurance in encouraging loss prevention; (Tab 3)
 - c. Discriminates against low income and minority consumers; (Tabs 4, 5 6 and 7)
 - d. Is arbitrary and unrelated to how well a consumer "manages" her finances; (Tabs 8, 9 and 10)
 - e. Penalizes consumers because of the business decisions of lenders. (Tab 8)
4. Insurer Misinformation on Credit Scoring
 - a. AIA "Study" of Credit Scores (Tab 11) and Income Levels vs. Texas and Missouri Department of Insurance Studies (Tabs 4 and 5)
5. Insurer Claims About Credit Scoring Are Not True (Tab 2)
 - a. Claim: Accurate Predictor of Claims. Fact: No Relationship Over Time (Tab 12)
 - b. Claim: More Accurate Pricing Leads to More Competition. Fact: Loss Ratios Have Gone Down Since Credit Scoring (Tab 12)
 - c. Claim: More Accurate Pricing Encourages Insurers to Write More Business. Fact: Uninsured Motorists Rates Have Gone Up Since Credit Scoring (Tab 13). Agent Groups Oppose Insurance Scoring
 - d. Claim: Majority of Consumers Benefit from Credit Scoring. Fact: Not True and Not a Justification for an Unfair Practice.
 - e. Claim: Banning Insurance Scores Will Cause Rates to Go Up for Many Consumers. Fact: Industry Scare Tactic, No Market Problems Before Credit Scoring or In States Which Ban Credit Scoring

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6. Blaming the Victim
 - a. Claim: Good Credit History Means Good Financial Manager Means Good Risk Manager or Good Credit History Equals Good Insurance Score Equals Good Risk
 - b. Fact: Consumers Get Low Credit Scores for a Variety of Reasons Having Nothing to Do With How Well They Manage Their Finances. (Tab 8)
7. Existing Laws Provide No Substantive Consumer Protection
 - a. No Hits
 - b. Sole Factor
 - c. Adverse Action Disclosure
 - d. Catastrophic Events
8. The Recent FTC Study is Discredited (Tab 14)

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Birny Birnbaum is a consulting economist and former insurance regulator whose work focuses on community development, economic development and insurance issues. Birny has served as an expert witness on a variety of economic and actuarial insurance issues in California, New York, Texas and other states. Birny serves as an economic adviser to and Executive Director for the Center for Economic Justice (www.cej-online.org), a Texas non-profit organization, whose mission is to advocate on behalf of low-income consumers on issues of availability, affordability, accessibility of basic goods and services, such as utilities, credit and insurance.

Birny has authored reports on insurance markets, insurance credit scoring, insurance redlining, title insurance and credit insurance abuses for CEJ and other organizations. Birny serves on the National Association of Insurance Commissioners Consumer Board of Trustees. Birny has been particularly active on risk classification issues including insurance credit scoring, insurers' use of loss history and territorial rating. He has authored reports to numerous public agencies, including the California Department of Insurance, the Florida Insurance Commissioner's Task Force on Credit Scoring, the Ohio Civil Rights Commission and the Cities of New York and Philadelphia.

Birny served for three years as Associate Commissioner for Policy and Research and the Chief Economist at the Texas Department of Insurance. At the Department, Birny provided technical and policy advice to the Commissioner of Insurance and performed policy research and analysis for the Department on a variety of topics, including.

- Homeowners and Automobile Insurance Availability and Affordability
- Evaluation of Underwriting and Rating Factors, including Credit Scores
- Data Strategy, Collection and Analysis
- Analysis of Insurance Markets and Availability, including Title and Credit Insurance
- Review of Rate Filings and Rate Analysis
- Loss Prevention/Cost Drivers

Prior to coming to the Department, Birny was the Chief Economist at the Office of Public Insurance Counsel (OPIC), working on a variety of insurance issues. OPIC is a Texas state agency whose mission is to advocate on behalf of insurance consumers. Prior to OPIC, Birny was a consulting economist working on community and economic development projects. Birny also worked as business and financial analyst for the Port Authority of New York and New Jersey. Birny was educated at Bowdoin College and the Massachusetts Institute of Technology. He holds two Master's Degrees from MIT in Management and in Urban Planning with concentrations in finance and applied economics.